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Report Highlights:

Retained imports of chilled/frozen chicken products are forecast to rise 2% in 2002 and are expected to gradually replace freshly slaughtered chickens in the future as a result of lower prices and change in consumption pattern. China's administrative measures requiring permits limited meat imports and led to a sharp decrease in Hong Kong's imports in the past few months. US exports to Hong Kong also decreased 21% during the same time frame. The acute decline in US exports to Hong Kong is not only caused by reduced re-exports to China but also by keen competition from other supplying countries.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Situation and Outlook

The outbreak of H5N1 avian influenza occurred in February this year resulting in a series of improved biosecurity measures which are to be included as licensing requirements for local farms. The increased operation cost will probably force some small farms to close. The report compiled by the investigation team also recommended having an extra rest day for retail sales of live chickens in wet markets. This has not yet been implemented due to opposition by local trade interests. The investigation team concluded that the risk of recurrence will remain as long as trade in live chickens continues. All precautionary measures only reduce risk and make the task of containing the spread more manageable.

It is unlikely that the government will ban retail sales of live chickens in the near future because the demand for fresh slaughtered chickens is high and the livelihood of people in the industry will be hurt if a ban is imposed. The general view is that the local industry will gradually shrink when faced with competition from imports of chilled chickens from China beginning at the end of this year. Chilled chickens from China are expected to replace a significant share of live chickens because prices are much lower and quality is comparable.

As such, chicken production will not rise but decline in the future. Freshly slaughtered chicken which amounted to 28% of total consumption in 1995, declined to 20% last year. Consumption of chilled/frozen products has been increasing though very slowly. Retained imports of chilled/frozen chicken products are forecast to rise 2% in 2002 and are expected to gradually replace freshly slaughtered chickens in the future as a result of lower prices and change in consumption pattern.

Hong Kong's imports of chicken products dropped 11% between Jan - June 2001 and 2002 year-on-year due to decrease in re-exports to China. China's administrative measures requiring permits limited meat imports and led to a sharp decrease in Hong Kong's imports in the past few months. US exports to Hong Kong also decreased 21% during the same time frame. However, the acute decline in US exports to Hong Kong is not only caused by reduced re-exports to China but also by keen competition from other supplying countries. Brazil increased its exports to Hong Kong by 7%. The average price of Brazilian products has decreased 6% in contrast to a 9% increase for US products. The current market is very sensitive to price. In addition, many other supplying countries have also increased their supplies to Hong Kong at very competitive prices.

As China continues to limit its meat imports, Hong Kong's imports will drop correspondingly as over 69% of Hong Kong's chicken imports are re-exported to China.

Since China does not produce turkey due to its niche market appeal and has not curbed turkey imports by limiting permits, Hong Kong's imports of turkey rose 40% and re-exports to China 57% between Jan - June 2001 and 2002.

Reflecting no significant change in the past few months, the Hong Kong egg market increased 6 % in Jan - June 2002 compared to the corresponding period last year. US small white eggs continue to be very popular for breakfast for the catering industries. China, being the leading supplier, occupied 58% of the market share. Eggs from China are considered to have good quality and low prices.

Statistical Tables - Poultry, Meat, Total

Table 1: Imports in Value by Major Suppliers, Jan - June

Country	Millions of US Dollars			% Share		
	2000	2001	2002	2000	2001	2002
--The World--	434	384	357	100.00	100.00	100.00
United States	244	206	182	56.31	53.64	50.91
Brazil	56	56	55	13.00	14.63	15.49
China	41	47	46	9.54	12.14	12.94
Thailand	13	13	13	3.04	3.45	3.68
United Kingdom	15	11	9	3.55	2.99	2.53
Canada	13	7	7	2.92	1.82	2.09
France	9	9	7	2.03	2.31	2.05
Netherlands	16	9	6	3.63	2.28	1.58
Hungary	3	4	4	0.64	1.05	1.21
Argentina	3	2	3	0.58	0.61	0.90

Table 2: Poultry Imports in Quantity by Major Suppliers, Jan - June

	MT			Market Share		
	2000	2001	2002	2000	2001	2002
--The World--	573,450	498,096	450,996	100%	100%	100%
United States	374,253	313,247	255,342	65%	63%	57%
Brazil	69,789	70,823	75,218	12%	14%	17%
China	27,640	31,111	34,412	5%	6%	8%
United Kingdom	18,578	13,928	12,130	3%	3%	3%
Canada	18,157	10,330	11,311	3%	2%	3%
Thailand	9,793	11,522	10,538	2%	2%	2%
Netherlands	18,594	10,949	7,769	3%	2%	2%
France	6,651	6,247	6,283	1%	1%	1%
Argentina	4,147	4,047	5,411	1%	1%	1%
Turkey	3,564	4,847	5,268	1%	1%	1%

Table 3 : Average C.I.F. Hong Kong Prices for Poultry Products, Jan - June

Country	-/ KG - 2000	-/ KG - 2001	-/ KG - 2002	% Change - 02/01 -
--The World--	0.76	0.77	0.79	2.60
United States	0.65	0.66	0.71	7.58
Brazil	0.81	0.79	0.73	-7.59
China	1.50	1.50	1.34	-10.67
United Kingdom	0.83	0.82	0.74	-9.76
Canada	0.70	0.68	0.66	-2.94
Thailand	1.34	1.15	1.25	8.70
Netherlands	0.85	0.80	0.73	-8.75
France	1.32	1.42	1.17	-17.61
Argentina	0.61	0.58	0.59	1.72

Table 4 : Poultry Exports by Major Destinations, Jan - June

	MT			% Change
	2000	2001	2002	- 02/01 -
--The World--	429,181	360,299	311,557	-13.53
China	425,387	355,391	304,805	-14.23
Macau	3,672	4,161	4,023	-3.32
Vietnam	0	537	2,540	372.63

Statistical Table - Plty, Meat, Chicken

PS&D Table

PSD Table						
Country	Hong Kong					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	2	2	2	2	0	2
Slaughter (Reference)	39	42	43	42	0	41
Beginning Stocks	0	0	0	0	0	0
Production	66	60	66	60	0	59
Whole, Imports	25	0	28	0	0	0
Parts, Imports	208	233	212	238	0	243
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	233	233	240	238	0	243
TOTAL SUPPLY	299	293	306	298	0	302
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	1	0	1	0	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	1	0	1	0	1
Human Consumption	299	292	306	297	0	301
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	299	292	306	297	0	301
TOTAL Use	299	293	306	298	0	302
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	299	293	306	298	0	302
Calendar Yr. Imp. from U.S.	630	100	0	110	0	116

Note : Re-exports are taken from Imports and Exports refer to domestic exports.

Price Table

Prices Table			
Country	Hong Kong		
Commodity	Poultry, Meat, Broiler		
Prices in	US\$	per uom	kg
Year	2001	2002	% Change
Jan	0.76	0.76	0.00%
Feb	0.69	0.82	18.84%
Mar	0.68	0.78	14.71%
Apr	0.73	0.74	1.37%
May	0.76	0.74	-2.63%
Jun	0.74	0.75	1.35%
Jul	0.79		-100.00%
Aug	0.77		-100.00%
Sep	0.77		-100.00%
Oct	0.78		-100.00%
Nov	0.78		-100.00%
Dec	0.75		-100.00%
Exchange Rate	7.75	Local currency/US \$	

Table 5 : Production of Live Chicken

Unit/MT	1997	1998	1999	2000	2001
Local Supply	14,900	3,720	11,480	13,560	14,400
Import	52,570	49,180	51,810	51,310	44,730
Total Supply	67,470	52,900	63,290	64,870	59,130

Source : Hong Kong Agriculture, Fisheries and Conservation Department

Table 6 : Average Retail Prices of Chicken Relative to Pork and Beef (freshly slaughtered)

US\$/kg	1997	1998	1999	2000	2001
Chicken (top grade)	\$4.70	\$5.28	\$4.73	\$4.49	\$4.60
Duck (top grade)	\$3.30	\$3.57	\$3.18	\$2.89	\$2.80
Beef (best quality)	\$7.11	\$7.20	\$7.19	\$7.17	\$7.20
Beef (belly flesh)	\$5.30	\$5.48	\$5.42	\$5.34	\$5.36
Pork (best cut)	\$5.53	\$5.62	\$5.32	\$4.87	\$4.54
Pork Chop	\$6.67	\$6.76	\$6.42	\$5.92	\$5.58

Table 7 : Chicken Imports in Value by Major Suppliers, Jan - June

Country	Millions of US Dollars			% Share		
	2000	2001	2002	2000	2001	2002
--The World--	383	333	309	100.00	100.00	100.00
United States	232	196	171	60.66	58.91	55.13
Brazil	56	55	55	14.66	16.66	17.74
China	19	24	26	4.88	7.27	8.52
Thailand	12	12	12	3.14	3.57	3.81
United Kingdom	14	10	8	3.61	3.04	2.50
Canada	12	7	7	3.18	1.99	2.29
Netherlands	15	9	5	3.98	2.56	1.71
Argentina	3	2	3	0.66	0.70	1.03
France	4	2	3	0.93	0.68	1.02
Turkey	2	2	3	0.48	0.74	0.97

Table 8 : Chicken Imports in Quantity by Major Suppliers, Jan - June

	MT			Market Share		
	2000	2001	2002	2000	2001	2002
--The World--	532,349	458,462	406,659	100%	100%	100%
United States	361,004	302,190	239,950	68%	66%	59%
Brazil	69,394	69,840	74,634	13%	15%	18%
China	10,459	14,537	18,063	2%	3%	4%
Canada	17,351	9,769	10,685	3%	2%	3%
United Kingdom	17,342	12,902	10,262	3%	3%	3%
Thailand	8,981	10,403	9,330	2%	2%	2%
Netherlands	18,042	10,620	7,164	3%	2%	2%
Argentina	4,147	4,047	5,411	1%	1%	1%

Turkey	3,541	4,799	5,196	1%	1%	1%
Iran	491	1,017	4,536	0%	0%	1%

Table 9 : Average C.I.F. Prices for Chicken Products by Major Suppliers, Jan - June

	-/ KG - 2000	-/ KG - 2001	-/ KG - 2002	% Change - 02/01 -
--The World--	0.72	0.73	0.76	4.11
United States	0.64	0.65	0.71	9.23
Brazil	0.81	0.79	0.74	-6.33
China	1.78	1.66	1.46	-12.05
Canada	0.70	0.68	0.66	-2.94
United Kingdom	0.80	0.78	0.75	-3.85
Thailand	1.34	1.14	1.26	10.53
Netherlands	0.84	0.80	0.74	-7.50
Argentina	0.61	0.58	0.59	1.72
Turkey	0.51	0.51	0.58	13.73
Iran	0.48	0.44	0.59	34.09

Table 10 : Chicken Domestic Exports by Major Destinations, Jan - June

Country	- KG - 2000	- KG - 2001	- KG - 2002	% Change - 02/01 -
--The World--	590	920	290	-68.48
Macau	590	920	290	-68.48
Philippines	0	0	0	0.00

Table 11 : Chicken Re-exports by Major Destinations, Jan - June

	2000	MT 2001	2002	% Change - 02/01 -
--The World--	411,205	342,588	287,910	-15.96
China	407,532	337,805	281,296	-16.73
Macau	3,599	4,142	4,012	-3.15
Vietnam	0	537	2,540	372.63
United States	71	0	49	0
Indonesia	0	5	8	64.85

Table 12 : HK's Chicken Imports by Categories, Jan - June

	MT, 2000	MT, 2001	MT, 2002	% change 02/01
chicken products	532,349	458,462	406,659	-11.30%
chicken feet	209,979	194,499	151,128	-22.30

chicken wings	139,612	138,406	134,635	-2.72%
chicken frozen cuts	154,647	100,125	90,272	-9.84%
chicken, whole	9,880	10,234	11,858	15.86%

Table 13 : HK's Chicken Re-exports by Categories, Jan - June

	MT, 2000	MT, 2001	MT, 2002	% change 02/01
chicken products	411,205	342,588	287,910	-15.96%
chicken feet	174,203	169,532	127,220	-24.95%
chicken wings	91,063	93,939	97,479	3.76%
chicken frozen cuts	129,721	69,633	51,840	-25.55%
chicken, whole	741	236	214	-9.32%

Table 14 : HK's Retained Imports of Chicken Products by Categories, Jan - June

	MT, 2000	MT, 2001	MT, 2002	% change 02/01
chicken products	121,144	115,874	118,749	2%
chicken feet	35,776	24,967	23,908	-4%
chicken wings	48,549	44,467	37,156	-16%
chicken frozen cuts	24,926	30,492	38,432	26%
chicken, whole	9,139	9,998	11,644	16%

Table 15 : Percentage of US chicken products imported to HK being re-exported to China, Jan - June

	MT, 2001	MT, 2002	% change
US chicken product imports to HK	302,190	239,950	-21%
US chicken product imports to HK being re-exported to China	250,122	181,655	-27%
% of US chicken product imports to HK being re-exported to China	83%	76%	
US chicken feet imports to HK	146,898	96,472	-34%
US chicken feet imports to HK being re-exported to China	134,354	84,150	-37%
% of US chicken feet imports to HK being re-exported to China	91%	87%	
US chicken wings imports to HK	62,920	60,746	-3%
US chicken wings imports to HK being re-exported to China	47,545	44,147	-7%
% of US chicken wings imports to HK being re-exported to China	76%	73%	
US chicken frozen cuts imports to HK	84,413	71,892	-15%
US chicken frozen cuts imports to HK being re-exported to China	61,822	45,972	-26%
% of US chicken frozen cuts imports to HK being re-exported to China	73%	64%	
US whole chicken imports to HK	290	617	113%
US whole chicken imports to HK being re-exported to China	24	86	267%
% of US whole chicken imports to HK being re-exported to China	8%	14%	

Statistical Table - Plty, Meat, Turkey

PS&D Table

PSD Table						
Country	Hong Kong					
Commodity	Poultry, Meat, Turkey				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	7	2	0	0	0	0
Production	0	0	0	0	0	0
Whole, Imports	0	0	1	0	0	0
Parts, Imports	5	5	6	6	0	6
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	5	5	7	6	0	6
TOTAL SUPPLY	12	7	7	6	0	6
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	12	7	7	6	0	6
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	12	7	7	6	0	6
TOTAL Use	12	7	7	6	0	6
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	12	7	7	6	0	6
Calendar Yr. Imp. from U.S.	28	4	29	4	0	4

Note : Re-exports are taken from Imports and Exports refers to domestic exports.

Price Table

Prices Table			
Country	Hong Kong		
Commodity	Poultry, Meat, Turkey		
Prices in	US\$	per uom	Kg
Year	2001	2002	% Change
Jan	0.9	0.71	-21.11%
Feb	0.74	0.84	13.51%
Mar	0.75	0.77	2.67%
Apr	0.87	0.71	-18.39%
May	0.98	0.64	-34.69%
Jun	0.97	0.68	-29.90%
Jul	0.77		-100.00%
Aug	0.98		-100.00%
Sep	0.91		-100.00%
Oct	0.93		-100.00%
Nov	1.24		-100.00%
Dec	0.82		-100.00%
Exchange Rate	7.75	Local currency/US \$	

Table 16 : Turkey Imports in Value by Major Suppliers, Jan - June

Country	Millions of US Dollars			% Share		
	2000	2001	2002	2000	2001	2002
--The World--	13.31	10.87	12.70	100.00	100.00	100.00
United States	10.77	8.49	10.20	80.92	78.06	80.30
United Kingdom	0.26	0.41	0.55	1.93	3.79	4.34
Germany	0.56	0.33	0.40	4.23	3.01	3.14
Brazil	0.24	0.68	0.39	1.83	6.25	3.08
Canada	0.42	0.30	0.34	3.16	2.78	2.72
Chile	0.31	0.34	0.32	2.33	3.12	2.53
Netherlands	0.24	0.07	0.12	1.77	0.67	0.96
France	0.20	0.11	0.11	1.52	1.00	0.89

Table 17 : Turkey Imports in Quantity by Major Suppliers, Jan - June

	MT			Market Share		
	2000	2001	2002	2000	2001	2002
--The World--	14,509	12,310	17,247	100%	100%	100%
United States	11,826	9,567	13,787	82%	78%	80%
United Kingdom	207	261	816	1%	2%	5%
Canada	725	517	616	5%	4%	4%
Brazil	376	959	584	3%	8%	3%
Germany	310	294	444	2%	2%	3%
France	287	263	297	2%	2%	2%
Chile	228	214	266	2%	2%	2%

Table 18 : Average C.I.F. Prices for Turkey Products by Major Suppliers, Jan - June

Country	-/ KG - 2000	-/ KG - 2001	-/ KG - 2002	% Change - 02/01 -
--The World--	0.88	0.86	0.71	-17.44
United States	0.86	0.86	0.71	-17.44
United Kingdom	1.24	1.58	0.68	-56.96
Canada	0.58	0.58	0.56	-3.45
Brazil	0.65	0.71	0.67	-5.63
Germany	1.82	1.11	0.90	-18.92
France	0.70	0.41	0.38	-7.32
Chile	1.34	1.58	1.21	-23.42
Netherlands	0.67	0.47	0.59	25.53

Table 19 : Turkey Exports by Major Suppliers, Jan - June

	MT, 2000	MT, 2001	MT, 2002	% change 02/01
--The World--	11,172	9,156	14,330	56.5
China	11,155	9,129	14,303	56.67
Taiwan	1	0	24	0
Macau	9	1	2	204.1
Indonesia	0	0	1	0
Philippines	5	3	0	-98.35
United States	0	23	0	-100

Table 20 : Percentage of US Turkey Products imported to HK being re-exported to China, Jan - June

	MT, 2001	MT, 2002	% change
US turkey product imports to HK	9,567	13,787	44%
US turkey product imports to HK being re-exported to China	7,253	11,506	59%
% of US turkey product imports to HK being re-exported to China	76%	83%	

Statistical Tables - Poultry, Eggs

Table 21 : Average Retail Prices of Fresh Hen Eggs

Fresh Hen Eggs (unit : HK cents per piece) (US\$1 = HK\$7.75)

1996	80	
1997	79	
1998	78	
1999	74	
2000	72	
2001	74	2002
Jan	72	75
Feb	74	73
Mar	71	78
April	72	74
May	74	75
June	74	
July	76	
August	74	
Sept	74	
Oct	77	
Nov.	74	
Dec.	76	

Source : Hong Kong Census & Statistics Department

Table 22 : Hong Kong Egg Imports in Value by Major Suppliers, Jan - June

Country	Millions of US Dollars			% Share		
	2000	2001	2002	2000	2001	2002
--The World--	27	26	27	100.00	100.00	100.00
China	13	14	15	47.32	51.97	53.81
United States	9	8	7	33.20	30.53	26.99
Germany	2	3	4	8.53	10.47	14.56
Thailand	1	1	1	4.99	5.50	2.55
Netherlands	1	0	0	4.42	0.33	0.91

Table 23: Kong Egg Imports in Volume by Major Suppliers, Jan - June

Country				% Share		
	- TH - 2000	- TH - 2001	- TH - 2002	2000	2001	2002
--The World--	674,108	637,481	674,843	100%	100%	100%
China	367,072	375,242	392,641	54%	59%	58%
United States	196,169	168,719	177,758	29%	26%	26%
Germany	45,121	50,450	77,527	7%	8%	11%
Thailand	33,591	35,691	15,270	5%	6%	2%
Netherlands	24,091	1,686	6,098	4%	0%	1%

Table 24 : Average C.I.F. Prices by Major Suppliers

Country				% Change
	-/ TH - 2000	-/ TH - 2001	-/ TH - 2002	- 02/01 -
--The World--	40.40	41.40	40.48	-2.22
China	35.11	36.56	37.44	2.41
United States	46.10	47.76	41.48	-13.15
Germany	51.47	54.76	51.30	-6.32
Thailand	40.46	40.70	45.64	12.14
Netherlands	50.00	51.25	40.87	-20.25

Table 21 : Hong Kong Egg Exports in Volume by Major Destinations, Jan - June

Country	- TH - 2000	- TH - 2001	- TH - 2002	% change 02/01
--The World--	351	506	512	1.19
Macau	351	506	512	1.19

Tables 18-21 refer to hen eggs HS : 04070070

Source : World Trade Atlas, Hong Kong Census & Statistics Department

Narrative on Supply, Demand, Policy & Marketing

Production

The outbreak of H5N1 avian influenza which occurred in local chicken farms in Hong Kong in February and March 2002 involving 30 farms in three different areas has not had any significant impact on production. Of the 30 farms, 29 are already back in operation and one is still upgrading its facilities so as to comply with new biosecurity measures required by the Agriculture, Fisheries, & Conservation Department (AFCD).

Subsequent to the bird flu incident, the government appointed an investigation team to look into the cause and recommend measures necessary to reduce its recurrence. The investigation team considers that the outbreak of disease on local farms was probably caused by a small number of introductions of H5N1 virus onto farms, followed by local spread between farms. The report determined the direct sales of poultry to retail markets and the movement of people associated with the live poultry trade between farms played a significant role in the spread of the virus. Cages used to deliver chickens between farms and markets also could be a contributing factor if they are not cleaned and disinfected properly.

The report made a number of recommendations including the strengthening of farm biosecurity. As a first step to strengthen farm biosecurity, AFCD requires all chicken farms to install a disinfection pool or tank so that people's shoes, vehicles and equipment can be properly disinfected before entering any chicken farms. Currently, about 95% of all chicken farms have complied with this requirement and the rest are still working to improve their disinfection facilities with the help of AFCD. The government is planning to include all upgraded biosecurity measures as farm licencing requirements.

To reduce the risk of farm infection, the government has limited the number of poultry that can be raised on individual farms according to licensed capacity. Under the new rules which came into effect in late February, the Director of Agriculture, Fisheries and Conservation has the power to confiscate birds that farmers have kept in excess of the allowed number. Moreover, direct sale of chickens from farms to retail is prohibited in order to reduce the risk of spreading virus from farms to markets.

The investigation team also recommended having an additional rest day when retail sales of live chicken would be suspended so as to help break virus cycles in markets. This suggestion is greatly opposed by the trade and the government is still discussing with industry representatives without any timetable for implementation. Presently, there is one rest day for the retail market each month with an intention to break virus cycles. The trade complained that they are unable to afford to have two rest days in one month. Their business will then be severely disrupted.

The report noted that 400,000 chickens have been vaccinated on a trial basis as a supplementary monitoring measure against another outbreak of bird flu. The results of the vaccination program should be reviewed before the role of vaccination in the control of H5N1 avian influenza virus in Hong Kong is established (Gain report #2017).

The investigation team concluded that as long as trade in live chickens continues, there is always a risk of further outbreaks of H5N1 avian influenza. The package of measures available and recommended can only reduce risks and make the task more manageable when an outbreak occurs. These precautionary measures cannot eradicate all chances

of further outbreaks.

Despite the recurrence of avian influenza incidents, the government allows trade in live chickens because there is still a big demand for freshly slaughtered chickens and many people are involved in this business. It is believed that the government is waiting to see the live chickens trade shrink by itself. It is possible that the trade will contract naturally over time because Hong Kong people are becoming more accepting of chilled and frozen products, which are more economical. Imports of chilled chicken products from China are expected to begin with the change of China's export policy pertaining to its meat exports.

Effective January 1, 2002, the Ministry of Foreign Trade and Economic Co-operation of the Chinese government no longer implements any export quota control over chilled chickens for supply to Hong Kong. In the past several months, the Hong Kong Food and Environmental Hygiene Department has been working with their counterparts in Mainland China to work out a protocol for the exportation of chilled meat products to Hong Kong. Hong Kong FEHD officials have been inspecting slaughtering and processing plants in Mainland China. It is understood that only plants which have been certified to have complied with Hong Kong's food safety and hygiene standards are allowed to export meat products to Hong Kong. Each chicken will be individually packed with hologram labels specifying processing date, use-by date and packer's information. Details are yet to be worked out and exports of chilled chickens are expected to start by the end of 2002.

Production of live chickens (including local and those imported from Mainland China) reached a record of 70KMT in 1995 and has decreased to 60 KMT in 2001. With the increased popularity of chilled and frozen products, production of live chickens will likely diminish gradually in the future.

Local production will shrink as well. As AFCD is tightening its licensing requirements for local farms, some small farms which will be unable to meet the new standard or cannot survive as a result of the increased production cost will be closed. Currently, there are about 140 chicken farms in the Hong Kong SAR.

Consumption

Hong Kong's chicken consumption is very stable given the maturity of the market. However, one point worth noting is that the consumption of freshly slaughtered chicken has been on the decline while that of chilled/frozen chicken products is on the rise. Price difference is a very key factor. Live chicken weighing about 1.4 kg sells at around HK\$50/head while a Brazilian chicken weighing 1.2 kg costs approximately HK\$20. Such a big price difference is not only attractive to ordinary households but also to catering industries. The economic downturn that Hong Kong has suffered the past few years has driven many restaurants to have cut-throat price competition and to reduce cost. In 1995, freshly slaughtered chicken amounted to 28% of total chicken consumption in Hong Kong and the share has dropped to 20% in 2001. Another contributing factor is the change of consumption pattern with more people shopping at supermarkets where facilities make the storage of frozen products possible.

Hong Kong's retained imports of poultry products increased 2% during the first half of this year. Chicken frozen cuts and whole chickens experienced the most conspicuous jump of 26% and 16% respectively. Popular cuts include whole legs, thighs, breast meat, etc. When chilled chicken products from China are allowed to enter Hong Kong, imports of whole chicken are expected to surge. Currently, the largest suppliers of whole chickens to Hong Kong are China (78%) and Brazil (10%).

Chilled whole chickens from China have a price-advantage over freshly slaughtered chickens in Hong Kong but are comparable in quality. Actually they are probably slaughtered in plants located in the southern part of Mainland China and then transported to Hong Kong within a few hours by trucks. The transportation time is so short that the quality in terms of taste would not be much affected. Retailers are making necessary preparations for the sale of chilled chicken products. Wellcome, one of the major supermarket chains in Hong Kong, is preparing necessary facilities for the transportation and storage of chilled products from China. (In June 2001, FEHD issued additional licensing requirements and conditions to all retail operators permitted to sell chilled meats. Retailers are required to provide suitable refrigerators for the storage or display of chilled meat for sale. The temperature inside the refrigerators should be kept at about 4 degree Celsius.)

Turkey consumption in Hong Kong is a niche market and continues to largely focus on catering industries.

Trade

Hong Kong's retained imports of chicken products for 2002 is forecast to rise 2% due to increased domestic demand. But total import (taking into account re-exports) is likely to have a double digit decline because of the sharp decrease in re-exports to China, largely due to difficulties in obtaining import permits. Chicken re-export business to China in the first half year has been severely disrupted by shortage of permits and reductions in permitted volume. If the situation does not improve, Hong Kong's chicken re-exports to China will be adversely affected.

Between January - June 2001 and 2002, Hong Kong's total chicken imports decreased 11% resulting from the 17% decline in re-export trade to China, which constituted about 69% of total imports. By categories, chicken feet declined most significantly (-22%). Over 84% of Hong Kong's chicken feet imports are re-exported to China. The reduced chicken feet re-exports to China due to permit problems inevitably lowered Hong Kong's chicken feet imports. In contrast, the imports of whole chicken rose 16%. About 98% of whole chicken imported into Hong Kong are retained for domestic use, hence the importation of this product has not been affected by the import climate prevailing in China as have other chicken parts.

By supplying countries, the US is the largest supplier, occupying 59% of the market share. In the first half year, US chicken product imports to Hong Kong declined 21% and re-exports to China declined 27%. However, the second largest supplier, Brazil, increased its chicken imports to Hong Kong by 7% and re-exports to China through Hong Kong by 34%. Brazilian products face an even tougher import situation in China than U.S. products. Evidently, the US has lost much of its market share not only due to decrease in re-exports to China but also strong competition particularly from Brazil. Price is a key factor. The average price of Brazilian products has dropped 6% while that of US products increased 9%. A trader commented that Brazilian boneless chicken leg products were offered at US\$950/MT, which was a record low in ten years. Both chicken feet and chicken wings imports from Brazil grew 4% in the first six months of this year compared to the same period last year.

Chicken feet are a major item for US chicken exports to Hong Kong, imports of which dropped 34%. Decreased demand in China is one of the reasons. Another reason is that Hong Kong traders are given more choices as supplies from other countries have increased remarkably: Brazil (4%), Turkey (13%), Argentina (35%), Iran (346%), Thailand (18%), and Canada (50%).

There is no doubt that the U.S. will continue to dominate the frozen chicken market. However, the market is getting

more competitive as supplies from other countries increase. Brazil and China have signed a Memo of Understanding allowing the importation of Brazilian poultry products to China. When it takes effect, Hong Kong's imports of Brazilian products are very likely to increase.

Re-exports to China

Hong Kong's chicken re-exports to China decreased 17% over the past six months when compared with the corresponding period of last year. Direct shipment from the U.S. to China is not the reason since US exports of chicken products to China also recorded 6% decrease in quantity in the first six months (source : USDA data). Most meat products going to the southern part of China are still routed through Hong Kong. The reduced Hong Kong re-exports are largely due to the stringent import control imposed by the Chinese government.

Traders unanimously complained that it is difficult to obtain permits this year for chicken paws and chicken wing tips. Transport cost rose significantly and very often transport companies do not accept orders because of lack of permits. Many Hong Kong companies suffered huge losses. When consignments arrived in Hong Kong, transport fees to China had already surged way beyond importers' calculation. However, importers could not transfer the cost to mainland buyers because the final prices were above the affordable market prices. Consequently, Hong Kong companies as middlemen had to bear the loss. In June and July, transport fees once rose to a height of RMB4000/MT for chicken feet and RMB3500/MT for wing tips.

In addition to permits, mainland importers are also required to obtain an automatic registration licence for meat imports. Traders complained that the Chinese government started to tighten the issuance of registration licence since August.

It seemed that the Chinese government wanted to use administrative measures to limit meat importation since the market is flooded with domestic products now that Japan and Europe have banned China's exports. Given the uncertainty of product entry to China, there is very little likelihood that Hong Kong's chicken re-exports to China will increase for 2002.

The Chinese government announced a new import regulation effective Sept. 1. The most important change is that the consignee's name on the permit has to match the name on the health certificate issued by FSIS, and the contracting party of the business contract. Traders are not happy with the new regulation as it would fail to provide flexibility in switching buyers. With the implementation of the new regulation, traders no longer can switch buyers even when unexpected changes in market situation occur.

The new measure probably has two consequences : Companies in Hong Kong can no longer be the official consignee as permits are issued to mainland companies with import rights. Second, the new measure is favorable to big players in China who have import rights and permits. Small traders who are supposed to be the contracting party are unable to import directly because of the lack of import right and permits. The importation has to go through big companies.

The new rule has been in effect for a few days already. Traders revealed that Chinese customs has not enforced this new regulation yet so the impact is yet to be seen.

Despite China's request for an amended FSIS health certificate for chicken feet with remarks stating the compliance to China's standards, consignments with unamended FSIS certificates stating compliance to Hong Kong standards are still

able to be transported to China, but probably with higher transportation fees.

Turkey

Hong Kong's turkey imports reached 17,247 MT during Jan - June 2002, increasing 40% compared with the same period last year. Re-exports to China surged 57%. Traders commented that China does not produce turkey so it does not have any incentive to restrict its importation. Therefore, Hong Kong's re-exports of turkey products to China have been very smooth in the past few months. The decrease in the average price of turkey products also helped to boost imports.

Eggs

Hong Kong is a mature market for eggs. There is no significant increase in consumption. The U.S. is very strong in small white eggs (18-ounces), which are in demand for breakfast for catering industries. US brown eggs do not have a significant role in the local market. The XL 27- ounces US eggs are very popular for bakery but they are rarely sold for retail as the look less appealing and their yolks are less yellow when compared to German eggs, given that their prices are very close. German eggs are expansive but large and heavy. The second grade German eggs which are very popular at retails sell at around HK\$0.50-0.60 in markets. Eggs from China occupied the largest market share (58%). Their quality is good while prices are low.

Policy

The Hong Kong government currently recognizes 26 different countries as competent authorities in issuing meat export certificates, such as the United States and the People's Republic of China. Generally speaking, if an import consignment for meat and poultry products is accompanied by a certificate issued by a recognized competent authority, it can be imported to Hong Kong without any permit issued by the Hong Kong government. Ground meat imports, which require an import certificate issued by the Hong Kong government regardless of country-of-origin, are a notable exception to this general practice.

Effective April 1, 2002, the importation of all chilled meats will also require an import permit. The rationale for the change is to allow Hong Kong government officials a better system for trace-back and to allow closer monitoring of increasing imports of chilled meats into Hong Kong from China and other Asian suppliers.

Hong Kong Food and Environmental Hygiene Department (FEHD) officials have given assurances that this new requirement will not impact trade and that chilled meats will be given priority on their inspection lists. The representative agreed to set up a "Special Communication Link" by which importers are able to liaise with FEHD and fix inspection appointments prior to consignment arrivals. Moreover, FEHD officials have indicated that inspection will be carried out within 3 working days after notification by importers of the arrival of the product at the warehouse. Importers generally view this 3-working day provision as workable and it should not unduly affect trade. (Details please refer to report HK\$2012).